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MEMORANDUM RECEIVED

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TO: Docket Control
FROM: Ernest G. Johnson
Director
Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: November 27, 2002

RE: STAFF REPORT FOR BENSCH RANCH UTILITIES, L.L.C. APPLICATION FOR
A CERTIFICATE OF CONVENIENCE AND NECESSITY FOR WASTEWATER
SERVICES (DOCKET NO. SW-04026A-01-0499)

Attached is the Staff Report for Bensch Ranch Utilities, L.L.C.'s application for a
Certificate of Convenience and Necessity for wastewater services. Staff recommends approval.

EGJ:JEF:nms

Originator: Jim Fisher

Attachment: Original and fifteen copies

Arizona Corporation Commission

DOCKETED

NOV 29 2002

DOCKETED BY	
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Service List for: Bensch Ranch Utilities, L.L.C.
Docket No. SW-04026A-01-0499

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

BENSCH RANCH UTILITIES, L.L.C.

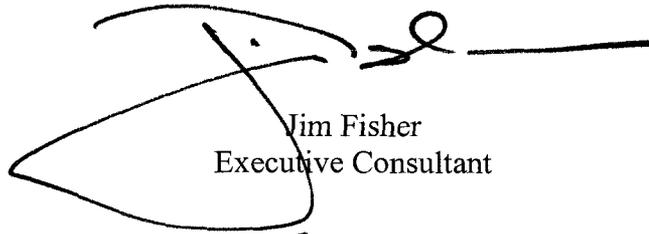
DOCKET NO. SW-04026A-01-0499

**APPLICATION FOR A CERTIFICATE
OF CONVENIENCE AND NECESSITY**

NOVEMBER 2002

STAFF ACKNOWLEDGMENT

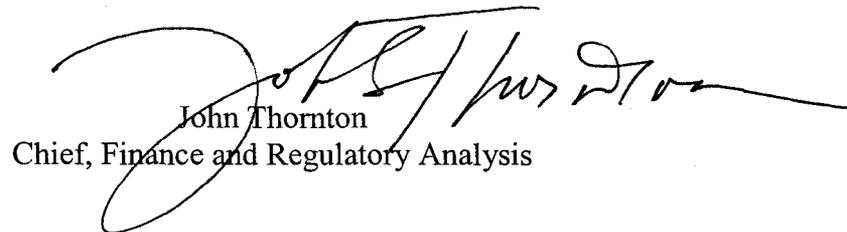
The Staff Report for Bensch Ranch Utilities, L.L.C., Docket No. SW-04026A-01-0499 was the responsibility of the Staff members listed below. Jim Fisher was responsible for the review and analyses of the Company's application. Lyndon Hammon was responsible for the engineering and technical analysis. John Thornton was responsible for the rate review analysis of the Company's application.



Jim Fisher
Executive Consultant



Lyndon Hammon
Engineering Consultant



John Thornton
Chief, Finance and Regulatory Analysis

**EXECUTIVE SUMMARY
BENSCH RANCH UTILITIES, L.L.C.
DOCKET NO. SW-04026A-01-0499**

On June 21, 2001, Bensch Ranch Utilities, L.L.C. ("BR Utilities") filed with the Arizona Corporation Commission ("ACC" or "Commission") an application for a Certificate of Convenience and Necessity ("CC&N") to provide wastewater service in portions of Yavapai County, Arizona. BR Utilities is seeking authorization to provide service to Bensch Ranch Estates ("BR Estates"), a planned residential development within the community of Mayer, Arizona.

BR Utilities is proposing to construct a wastewater system that will consist of a Santeq four-stage biological oxidation-nitrification process, sludge digestion, sludge disposal, effluent disposal and wastewater collection. The system will serve approximately 165 customers within the first five years and treat about 45,000 gallons per day.

Staff has determined that the proposed wastewater water system will have adequate treatment to serve the proposed CC&N area. No "used and useful" determination of the proposed plant in service can be made, and no conclusions should be inferred for ratemaking purposes.

The Company will finance the facilities through a combination of debt, equity and contributions in aid of construction. BR Estates has agreed to construct and convey the collection system to BR Utilities. The collection plant is estimated to cost \$579,975.

Staff recommends that BR Utilities be required to file within 12 months of the effective date of the final decision and order for this CC&N application, a copy of the "Preliminary Decision To Issue Permit" issued by the Arizona Department of Environmental Quality. In the event the copies of the "Preliminary Decision To Issue Permit" are not filed in a timely manner, then the final decision and order in this matter shall become null and void without further order of the Commission, unless the Commission grants an extension of time for this requirement.

BR Utilities proposes a \$47 per month flat rate for residential service and a usage sensitive monthly commercial rate, based on daily sewer flow relative to residential rates.

Staff further recommends that the Company be ordered to use depreciation rates shown on Schedule LH-1.

Staff further recommends that the Commission order Bensch Ranch Utilities, L.L.C. to file a rate application no later than three months following the fifth anniversary of the date the Company begins providing service to its first customer.

Staff further recommends that the Commission require Bensch Ranch Utilities, L.L.C. to file all related franchise agreements within 365 days of the effective date of the decision in this case.

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Introduction

On June 21, 2001, Bensch Ranch Utilities L.L.C. ("BR Utilities") filed with the Arizona Corporation Commission ("ACC" or "Commission") an application for a Certificate of Convenience and Necessity ("CC&N") to provide wastewater service in portions of Yavapai County, Arizona. On July 18, 2001, Staff informed BR Utilities the application was insufficient for administrative purposes. BR Utilities subsequently provided additional information perfecting the application for administrative review. On July 9, 2002, BR Utilities provided additional documentation on its receipt of related approvals.

Background

BR Utilities is seeking authorization to provide service to Bensch Ranch Estates, ("BR Estates"), a planned residential development within the community of Mayer, Arizona. BR Estates requested that BR Utilities provide service.

BR Utilities is a limited liability company, owned in part by Jason Williamson who is also the Executive Director of Pivotal Utility Management. In Decision No. 64599, March 4, 2002, the ACC authorized Mr. Williamson and Pivotal Utility Management, via their association with Pine Meadows Utilities, L.L.C., a CC&N to provide service to two similarly situated residential developments as proposed in this application.

BR Utilities is proposing to construct a wastewater system that will consist of a Santec four stage biological oxidation-nitrification process, sludge digestion, sludge disposal, effluent disposal and wastewater collection. The system will be built in phases. The system will serve approximately 165 customers within the first five years and treat about 45,000 gallons per day.

Currently, there is no capacity at the existing wastewater plants in the Mayer area to serve the proposed development. Furthermore, no certificated providers are able to serve the development at this time. This plant will be an interim plant and will operate until such time as interceptors and capacity are made available at a publicly owned wastewater facility.

Treatment Capacity

Engineering Staff found that the proposed wastewater water system will have adequate treatment to serve the proposed CC&N area within the conventional five-year planning period. Staff also found the Company can reasonably be expected to develop the needed treatment capacity for the final build out.

Cost Analysis

Wastewater treatment plants at this high level of environmental sophistication usually cost between six and eight dollars per gallon, excluding effluent disposal costs. The Company has projected the wastewater plant cost at \$360,199 for Phase I and an additional build-out cost of \$525,582 divided equally in year 3 and year 6 for a total of \$885,781. This figure is reflective of a build-out capacity of 175,950 gallons. The overall per gallon cost would then be \$5.03,

which is within a reasonable and customary cost range. However, approval of this CC&N application does not imply any particular future treatment for the rate base. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for rate making or rate base purposes.

Finance of Utility Facilities

The Company will finance the required collection and treatment facilities through a combination of debt, equity and contributions in aid of construction. Contributions in aid of construction are often in the form of line extension agreements. Line extension agreements are a standard industry practice. Arizona Administrative Codes R14-2-406 and R14-2-606 established the minimal acceptable criteria for line extension agreements between water and wastewater utilities and private parties. Line extension agreements generally require the developer to design, construct and install (or cause to be) all facilities to provide adequate service to the development. Upon acceptance of the facilities by the utility, the developer will convey the wastewater facilities by way of a warranty deed. The utility will refund ten percent of the annual wastewater revenue associated with development for a period of ten years.

In this application, BR Estates has agreed to construct and convey the collection system to BR Utilities. The collection plant is estimated to cost \$579,975, and will be treated as a Contribution in Aid of Construction.

BR Utilities executed a memorandum of understanding, dated December 20, 2001, with Pivotal Utility Management for an equipment financing agreement. According to the memorandum of understanding, \$250,000 in principle will be financed for ten years at nine and one half percent interest. The parties agree that the first 18 payments will not be billed to BR Utilities, and that the owners of BR Utilities shall make payments totaling \$24,191 to Pivotal Utility Management. The owners of BR Utilities will recognize the \$24,191 as other paid capital (equity) to ensure the financial stability of the utility during the 18 month payment period.

Arizona Department of Environmental Quality ("ADEQ")

Staff recommends that BR Utilities be required to file within 12 months of the effective date of the final decision and order for this CC&N application, a copy of the "Preliminary Decision to Issue Permit" issued by the ADEQ. In the event the copies of the "Preliminary Decision to Issue Permit" are not filed in a timely manner, then the final decision and order in this matter shall become null and void without further order of the Commission, unless the Commission grants an extension of time for this requirement.

Depreciation Rates

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Schedule LH-1, and it is recommended that the Company use the depreciation rates by individual National Association of Regulatory Utility Commissions ("NARUC") category, as delineated in the attached Schedule LH-1

Proposed Rates

The application indicates that there are presently no customers taking service in the area of the requested CC&N. At build-out, the requested CC&N area is expected to serve 165 customers. BR Utilities projects build-out to occur in its fifth year of operation.

Residential Rates: BR Utilities proposes \$47 per month flat rate for residential service. (See Schedule JF-1).

Commercial Rates: BR Utilities proposes a usage sensitive the monthly commercial rate which would be calculated on each commercial customer by dividing the expected design daily sewer flow, as prescribed in Arizona Administrative Code, Title 18, Chapter 9, by one Single Family Equivalent ("SFE"). One SFE would be equal to 250 gallons per day. The resulting factor would be multiplied by the approved residential flat rate to determine the appropriate commercial rate.

Staff recommends approval of commercial and residential rates as shown in Schedule JF-1. Staff further recommends that the Company be ordered to use depreciation rates shown on Schedule LH-1.

Fair Value Rate Base

Staff has reviewed the Company's revenues, expenses and plant values. By nature, these amounts are estimates, based on estimated lot sales, plant investments, meter connections and wastewater flows. However, as justification for the initial rates, the Company's estimated plant investment, revenues and expenses appear reasonable. Based on the Company's plant investment, Staff recommends that the Commission find that the fair value of the Company's property devoted to public service is \$352,760, as shown in Schedule JF-2. The rates and charges recommended herein are just and reasonable based on the recommended fair value finding.

Recommendations

Staff recommends that the Commission approve Bensch Ranch Utilities, L.L.C.'s application for a Certificate of Convenience and Necessity to provide wastewater services consistent with the conditions and recommendations in this Report.

Staff further recommends that Bensch Ranch Utilities, L.L.C. be required to file within two years from the effective date of the final decision and order for this CC&N application, a copy of the "Preliminary Decision to Issue Permit" issued by the ADEQ.

Staff further recommends, that in the event the copy of the ADEQ "Preliminary Decision To Issue Permit" is not filed in a timely manner, then the final decision and order in this matter shall become null and void without further order of the Commission, unless the Commission grants an extension of time for this requirement.

Staff further recommends that the Commission authorize Bensch Ranch Utilities, L.L.C. the rates and charges shown on Schedule JF-1.

Staff further recommends that Bensch Ranch Utilities, L.L.C. be ordered to use the depreciation rates as shown on Schedule LH-1.

Staff further recommends that the Commission find that the fair value of the Bensch Ranch Utilities, L.L.C. property devoted to waste water service is \$352,760.

Staff further recommends that Bensch Ranch Utilities, L.L.C. be ordered to notify the Commission within 15 days of providing service to its first permanent customer.

Staff further recommends that the Bensch Ranch Utilities, L.L.C. be ordered to file a rate application no later than three months following the fifth anniversary of the date the Company begins providing service to its first customer.

Staff further recommends that Bensch Ranch Utilities, L.L.C. be ordered to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Wastewater Utilities.

Staff further recommends that the Commission require Bensch Ranch Utilities, L.L.C. to file all related franchise agreements within 365 days of the effective date of the decision in this case.

Schedule JF-1

Wastewater Service Tariff

	Proposed Rates	
	Company	Staff
Monthly Usage Charge		
Residential	\$47.00	\$47.00
Commercial	\$47.00 per SFE	\$47.00 per SFE
Service Charges		
Establishment	\$35.00	\$35.00
Reconnection/Delinquent	\$30.00	\$30.00
Deposit (Residential)	\$94.00	*
Deposit (Commercial)	*	*
Deposit Interest	**	**
Reestablishment w/in 12 Months	Months off System	***
NSF	\$25.00	15.00
Check		
Late Payment Penalty	1.50%	****

Staff Footnotes:

- *Per A.A.C. R14-2-603 (B) (7) and (8)
- ** Per A.A.C. R14-2-603 (B) (3)
- ***Per A.A.C. R14-2-603 (D) (1)
- **** Per A.A.C. R14-2-608 (F) (3)

Applicant Note: Single Family Equivalent ("SFE") shall equal 250 gallons per day. The monthly commercial usage charge is to be calculated individually for each commercial customer by dividing the expected design daily sewer flow rate by one SFE. The resulting factor will be multiplied by the approved residential flat rate to determine the commercial monthly flat rate.

RATE BASE & RATE OF RETURN COMPUTATION

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Plant in Service	\$ 937,476	\$ 947,844	\$ 958,987	\$ 971,770	\$ 967,332
Less: Accumulated Depreciation	(5,375)	(11,537)	(17,777)	(24,013)	(30,434)
Net Plant	<u>932,101</u>	<u>\$ 936,307</u>	<u>\$ 941,210</u>	<u>\$ 947,757</u>	<u>\$ 936,898</u>
Less: Advances in Aid of Construction	(579,341)	(576,331)	(571,096)	(563,829)	(554,533)
Original Cost Rate Base	<u>\$ 352,760</u>	<u>\$ 359,976</u>	<u>\$ 370,114</u>	<u>\$ 383,928</u>	<u>\$ 382,365</u>
Operating Income (Loss)	\$ (19,864)	\$ (11,393)	\$ 4,041	\$ 15,966	\$ 25,140
Rate of Return	-5.63%	-3.16%	1.09%	4.16%	6.57%
Number of Customers - Residential	15	51	87	123	159
-Commercial	1	3	3	3	3
AIAC	\$ 579,976	\$ 579,341	\$ 576,331	\$ 571,096	\$ 563,829
Less: Refund 10% of Revenues	(635)	(3,010)	(5,236)	(7,266)	(9,297)
Net AIAC	<u>\$ 579,341</u>	<u>\$ 576,331</u>	<u>\$ 571,096</u>	<u>\$ 563,829</u>	<u>\$ 554,533</u>

Schedule LH-1
Wastewater Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers - Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----